

## feature Article:

### “Southern California Business Today” Forum

In the June issue of SCAG *Employment Trends Monthly*, we presented the first half of a two-part survey on the work of the California Economic Strategy Panel; in particular, the Panel’s recently-released report, *Collaborating to Compete in the New Economy: An Economic Strategy for California*. This month, we feature the second half of this survey, which covers the Southern California region’s contributions to the work of the Economic Strategy Panel, including the role of our **Regional Economic Strategies Consortium (RESC)** and its first publicly-hosted event, the “Southern California Business Today” Forum.

#### The RESC and the “Southern California Business Today” Forum

The California Economic Strategy Panel has identified six general economic regions in the state. In each, there are host organizations and partners working with the Panel to carry out its mission. In Southern California, the host organization is the **Regional Economic Strategies Consortium (RESC)**. The RESC was initiated by the Southern California Association of Governments and the Los Angeles Area Chamber of Commerce to bring together a broad-based group of business, labor, academic and government leaders with an interest in pursuing a regional approach to economic development.

On September 28-29 1995, the RESC hosted the “Southern California Business Today” Forum, the third in a series of regional forums requested by the California Economic Strategy Panel. The Forum brought the members of the Strategy Panel face to face with executives from three of the region’s most important industry clusters: entertainment, apparel and fashion design, and information technology. The determination as to which clusters would be presented at Southern California’s first regional forum was made by the RESC. The *Alliance of Motion Picture and Television Producers*, Southern California Edison and the *Los Angeles Regional Technology Alliance (LARTA)*, respectively, sponsored the three clusters, coordinating preparations and choosing the executives who would participate. Because much of the input provided by these industry groups is now an integral part of the Strategy Panel’s

*Collaborating to Compete in the New Economy* report, we thought it would be useful to include here a thumbnail sketch of each cluster and the contributions of its executives to the Forum discussions.

#### The Entertainment Industry

Entertainment has become the ultimate 21st Century industry cluster in Southern California. It produces and distributes a broad range of products and services based on talent. The industry has also emerged as a “propulsive” cluster which is driving other industries such as financial services, fashion design, and experience-based tourism in the region.

In discussions with the State Panel in the Business Today Forum, the entertainment industry cluster representatives stated that the industry needs new business-government governance mechanisms for an agile, fast moving economy and society. Government should act more as a facilitator than as a regulator. Businesses need to work together and to communicate their needs to government. They also stressed the importance of workforce preparation, as summed up in this statement: “If we do not proactively grow talent here, the industry will either import talent or not grow here. If we import talent, we are missing a significant opportunity to use job training for local youth and workers and to prevent further deterioration of our social fabric . . .”

#### The Entertainment Cluster

The size and growth of the entertainment cluster in Southern California are impressive. Estimates of direct employment in the region’s entertainment cluster vary from conservative figures of around 162,000 jobs to some 250,000 jobs in 1993. Broadly defined, employment concentration in the cluster in Southern California is 61% greater than the national average. In motion picture production, which accounts for 69,000 jobs in the region, employment concentration is 10 times greater than in the nation as a whole. Entertainment industry jobs pay well: average payroll per employee in 1993 was almost \$47,600, compared to a regional average of \$29,578. In addition, all sub-sectors within the cluster show substantial increases over time in payroll per employee at rates well above the regional average.

The specialized infrastructure needed to support the entertainment industry has been a continually evolving mix of higher education programs and specialized professional services. Specific critical issues identified by the entertainment cluster include:

- Generating specialized talent and skills in the new digital technologies. Workforce training needs to combine artistic and technological skills.
- Local and state regulatory and permitting issues. Local permitting is a problem for location shooting and local building codes and environmental regulations constrain studio expansion.

- Quality of life issues--in particular, housing, education, crime, and the region's image.
- Lack of a formal industry-wide network to work in collaboration on common issues facing the industry. Moreover, new technology creates a need for broader networks between the entertainment and information technology industries.

### The Apparel and Fashion Design Industry

Southern California has emerged as the largest center of apparel employment in the U.S. Its importance as an apparel industry center stems from its strength in design and the ability of firms in the region to produce high quality runs of clothing reliably and quickly for stores and other customers.

Major requirements for successful future growth in the apparel industry include:

- Responding positively to the challenge of resolving the labor difficulties the industry faces
- Adapting marketing and sales practices to succeed in the rapidly-changing world of retail sales
- Instituting technological innovations and refining manufacturing processes to achieve productivity gains and better control of costs
- Providing additional training in the use of new high-tech methods of production and design. As one of the industry participants in the Forum expressed it: "...technology is useless without training."

### The Information Technologies Industry

Southern California has long served as the hub of the defense electronics and high technology aerospace engineering industries. The shrinking of the nation's defense budget over the past decade thus created a serious dislocation in the regional economy. However, from the defense industries\* contraction has emerged a whole new cluster of high technology industries that develop hardware and software for a wide variety of information

intensive industries, including education, entertainment, health care, and business services.

The major constraints faced by this emerging cluster are those traditionally faced by growing high-tech companies: finding customers willing and able to apply the technology and developing a steady flow of capital that will allow the businesses within the cluster to upgrade and change on the rapid recycling schedule of this type of industry.

Another constraint identified by cluster representatives was that the inadequacies of the K-12 education system in the region have started to impair companies' ability to attract new employees. As a result, existing companies find it hard to expand while new companies are reluctant to move to Southern California. A key problem with the K-12 education system is that too much

money is spent on administration, too little on educational tools and teachers.

Requirements for successful future growth of the information technologies cluster include:

- Strengthening of network relationships among the firms and technologies comprising the cluster

#### The Apparel and Fashion Design Cluster

The apparel cluster employs approximately 134,000 workers in companies spread throughout the region. It contains the largest number of companies among all manufacturing sectors in Los Angeles County. In 1992, over 4,000 individual firms showed up in the U.S. Commerce Department's *County Business Patterns* survey, of which 3,500 had less than 50 employees. Employment concentration in apparel in this region is almost 1.5 times as great as that the nation as a whole; out of the 5 largest centers of apparel employment in the U.S., Los Angeles ranks first, ahead even of traditional leader New York. The apparel and fashion design industry continued to expand at an annual rate of 2 percent during the 1990-93 recession, while almost all other manufacturing industries were losing jobs. Although wage levels in the industry are lower than the regional average, they increased almost \$4,000, or just under 23%, between 1988 and 1993.

#### The Information Technologies Cluster

Regionwide, approximately 143,500 workers were employed in information technology companies in 1993. This is a concentration 20 percent greater than the national average. Due to the general contraction of the region's economy during 1990-93, especially in the areas of defense and aerospace, Southern California employment in the information technology cluster as a whole declined 5 percent between 1988 and 1993. Many, perhaps even most, of the new information-based companies spun out of the defense/aerospace complex are relatively small and rapidly-growing. Employment concentration in the region is thus likely to rise steadily relative to the national average.

- Forging strategic alliances with other, often larger, firms in the industry, including networks of CEOs
- Finding the capital necessary to develop the products and market them to users
- Creating acceptance of the technologies by the market.

## A Glance at the Regional Employment Statistics for May

**Total wage and salary employment** in the SCAG region's six counties combined in May was 6,175,500, up 127,700 jobs, or 2.1 percent, from year-earlier (Figures 1 and 2, Tables 1 and 3). While *durable goods manufacturing* still posted modest year-over-year job declines (300 jobs, or -0.1%), *manufacturing* overall registered a small increase in employment, by 1,300 jobs or 0.1%. Revised EDD labor market statistics showed that the region's total manufacturing employment level has been very stable since November 1994. There were eight positive year-over-year employment readings between November 1994 and May 1996, indicating that employment losses may be bottoming out, and the overall manufacturing job market has stabilized. Regionwide, sectors showing the most robust year-over-year employment growth include: construction (up 12,400 jobs, or 5.8%), apparel and textiles (+6,000 jobs, or 4.4%), wholesale trade (+16,300 jobs, or 4.1%), retail trade (up 20,500 jobs, or 2.0%), and services (up 71,800 jobs, or 3.9%), especially the business services

component, amusement, recreation, engineering and management and motion pictures (Figure 4 and Table 5).

The SCAG region's **weighted average unemployment rate** dropped for the third month in a row, to 7.3 percent in May from 7.8% in February, 7.5% in March, and 7.4% in April (Table 4). However, the region's May unemployment rate was still fractionally higher than its year-ago level (7.3% vs. 7.2%). California's jobless rate (seasonally unadjusted) also showed improvement between April and May--declining to 7.0% from 7.4%--while the U.S. jobless rate (also on a seasonally unadjusted basis) was 5.4% in May, unchanged from its April level. Both the state and the national unemployment rates were below their year-ago levels.

### Note to Our Readers

*SCAG Employment Trends Monthly* will not appear in August, to allow staff time to prepare the State of the Region report for Regional Transportation Plan, Environmental Impact Report. Regular publication will resume in September with labor market data for July. If you need the June numbers, you may contact the Economic Analysis Division at SCAG: (213) 236-1897.

You can now read and download SCAG Employment Trends Monthly through SCAG Home Page on Internet.

The address: [www.scag.ca.gov](http://www.scag.ca.gov)

## The Index of Regional Leading Economic Indicators

The California State University Long Beach Office of Economic Research reports that the Office's Index of Regional Leading Economic Indicators declined 0.1% in June. The index stands at a value of 95.4, compared to a reading of 95.5 in May, and was unchanged from one year ago.

The recent performance of the Index of Regional Economic Indicators is troublesome. June's decline marked the fourth consecutive monthly retreat, indicating that activity in the regional economy may slow down six to nine months ahead. According to researchers at CSULB's Office of Economic Research, a key cause of the recent decline in the indicator has been the sharp increase in business failures in the City of Los Angeles in the past couple of months. In addition, rising interest rates appear to be dampening the growth in regional new building permits.

For additional information and comment on the Index of Regional Leading Economic Indicators, please contact either Lisa Grobar (310) 985-1652, Joseph Magaddino (310) 985-8136, or Peter Griffin (310) 985-4783, professors of Economics and authors of the index.